



Experimental Poverty Measures: Summary of a Workshop

John Iceland, Rapporteur, Planning Group for the Workshop to Assess the Current Status of Actions Taken in Response to Measuring Poverty: A New Approach, National Research Council

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EXPERIMENTAL POVERTY MEASURES

Summary of a Workshop

John Iceland, *Rapporteur*

Planning Group for the Workshop to Assess the
Current Status of Actions Taken in Response to
Measuring Poverty: A New Approach

Committee on National Statistics

Division of Behavioral and Social Sciences and Education

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I also thank Katherine K. Wallman, chief statistician in the Office of Management and Budget, for originating the idea for the workshop and working with CNSTAT and the U.S. Census Bureau to bring it to fruition. The Census Bureau provided funding for the workshop through a task order contract between the Food and Drug Administration and the National Academies.

John Iceland, University of Maryland, was responsible for preparing this summary of the workshop. He attended the workshop, developed the outline, and wrote the summary—which faithfully, elegantly, and succinctly captures the workshop discussions.

I am grateful for the excellent work of the staff of the Committee on National Statistics and the Division of Behavioral and Social Sciences and Education (DBASSE) for developing and organizing the workshop and assisting in the preparation of the workshop summary. Michele Ver Ploeg, who served as study director for the project, was chiefly responsible for organizing the workshop. Tanya Lee and Michael Siri handled all administrative matters regarding the workshop. Jamie Casey assisted in revising the workshop summary in response to reviewers' comments, and Eugenia Grohman of the DBASSE reports office edited it.

This workshop summary has been reviewed in draft form by individuals chosen for their diverse perspectives and technical expertise, in accordance with procedures approved by the Report Review Committee of the National Research Council. The purpose of this independent review is to provide candid and critical comments that will assist the institution in making its published report as sound as possible and to ensure that the report meets institutional standards for objectivity, evidence, and responsiveness to the charge. The review comments and draft manuscript remain confidential to protect the integrity of the process. We thank the following individuals for their review of this report: David M. Betson, Department of Economics and Policy Studies, University of Notre Dame; David S. Johnson, Division of Price and Index Number Research, Bureau of Labor Statistics, Washington, DC; and Robert D. Reischauer, President's Office, The Urban Institute, Washington, DC.

Although the reviewers listed above provided many constructive comments and suggestions, they were not asked to endorse the content of the report nor did they see the final draft of the report before its release. The review of this report was overseen by Robert T. Michael, Harris Graduate School of Public Policy, University of Chicago, and Joseph P. Newhouse, Health Policy and Management, Harvard University. Appointed by the National Research Council, they were responsible for making certain that an independent examination of this report was carried out in accordance with institutional procedures and that all review comments were carefully considered. Responsibility for the final content of this report rests entirely with the author and the institution.

Constance F. Citro, *Director*
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1

Introduction and Background

The Committee on National Statistics (CNSTAT) of the National Research Council (NRC) convened a workshop on June 15-16, 2004, to review federal research on alternative methods for measuring poverty. The workshop had been requested by the U.S. Office of Management and Budget to evaluate progress in moving toward a new measure of poverty, as recommended by the 1995 report, *Measuring Poverty: A New Approach* (National Research Council, 1995:1):

Our major conclusion is that the current measure needs to be revised: it no longer provides an accurate picture of the differences in the extent of economic poverty among population groups or geographic areas of the country, nor an accurate picture of trends over time. The current measure has remained virtually unchanged over the past 30 years. Yet during that time, there have been marked changes in the nation's economy and society and in public policies that have affected families' economic well-being, which are not reflected in the measure.

The 1995 report was produced by the NRC Panel on Poverty and Family Assistance. In the years since its publication, there has been much research on elements of the recommendations by researchers in a variety of government agencies, think tanks, and universities. The U.S. Census Bureau has also produced a large number of alternative measures of poverty. However, the methods used to produce these alternatives have changed from year to year, so that there are no consistent time series of alternative poverty statistics. Thus, the central purpose of the workshop was to obtain feedback

from the scientific community on which components of alternative measures are methodologically sound and which might need further refinement, toward the goal of narrowing the number of alternative measures that should be considered.

For the workshop, the planning group asked several researchers to prepare papers as the basis for discussions. The paper authors were charged to summarize the work that had been conducted on a particular element of alternative poverty measures, discuss the technical issues that have arisen, and outline the strengths and limitations to alternative approaches. Designated workshop discussants were asked to give their assessments of whether different alternative measures were sound enough methodologically as an improvement over the current measure. During the open discussion in each session, all workshop participants were encouraged to comment on whether each alternative measure was sound enough methodologically to be considered an improved alternative measure over the current measure of poverty.

At the outset of the workshop, the planning group explained that three changes to the current poverty measure that were recommended in the 1995 report have such broad support they were not included in the charges to the paper authors nor specifically slated for discussion at the workshop. Those changes involve the family resources part of the measure, currently defined as gross cash income:

- Subtract income taxes and payroll taxes and add the Earned Income Tax Credit (EITC) and realized capital gains or losses.
- Add the value of food stamps and other near cash benefits, which include school lunch benefits, energy subsidies, and, if the data are available, the value of benefits received under the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) and the school breakfast program.
- Subtract child support payments made by the payer, if the data are available.

THE CURRENT OFFICIAL POVERTY MEASURE

The current official poverty measure has two components—poverty thresholds and the definition of family resources that are compared to these thresholds. Mollie Orshansky, a staff economist at the Social Security Administration, developed poverty thresholds in 1963 and 1964 by using the “Economy Food Plan” (the lowest cost food plan) prepared and priced by

the U.S. Department of Agriculture. The plan was designed for “temporary or emergency use when funds are low.”

To get from the food plan cost to an overall poverty threshold figure, Orshansky used information from the 1955 Household Food Consumption Survey that indicated that families of three or more people had spent about one-third of their after-tax income on food in that year. She therefore multiplied the costs of the food plan for different family sizes by three to come up with income thresholds for those family sizes. (She used a different approach for one- and two-person families.) The food plan—and thus the thresholds developed from it—reflected the differing food needs of children and adults.

The thresholds have been updated yearly for inflation using the Consumer Price Index (CPI). The definition of family resources used to compare to the thresholds is the Census Bureau’s definition of income—gross annual cash income from all sources, such as earnings, pensions, interest income, rental income, asset income, and cash welfare. A family and its members are considered poor if their income falls below the poverty threshold for a family of that size and composition.¹ One advantage of the current poverty measure is that it is simple to describe. It also provides an unchanging benchmark to reflect the 1964-vintage measure of what was then considered poverty.

The current official poverty measure was indeed, for a time, a sensible indicator of material deprivation in the United States. At the time of its initial adoption by the Office of Economic Opportunity in 1965, the poverty lines were set at a dollar level that coincided with people’s views of poverty. The method of measuring people’s resources—gross cash income—also managed to fairly accurately capture the income people had to meet their basic needs.

Over the past 40 years, however, the poverty measure has become increasingly outdated (see National Research Council, 1995:1-2). According to the NRC’s report, the measure of both basic needs and families’ resources no longer allows us to accurately gauge changes in the extent of poverty in society nor the composition of the poverty population. The poverty lines, originally devised by multiplying the cost of food needs by three

¹Since its adoption, the official poverty measure has undergone minor changes to the thresholds; see National Research Council (1995:24-25).

to account for other needs (such as clothing and shelter), no longer capture families' basic needs because of the growth in housing costs and other expenditures (such as medical care and childcare) relative to food costs. Today, people spend closer to one-sixth of their income on food rather than one-third. Thus, while the official poverty threshold for a four-person family once coincided with people's views of the dollar amount needed to support such a family in the 1960s—as reported in public opinion surveys—this was no longer true by the 1990s (National Research Council, 1995). A more refined threshold could use more recent data to price out the cost not only of food, but also other necessities like shelter and clothing.

Likewise, many have argued that the definition of money income used in the official measure—gross cash income—inadequately captures the resources people have at their disposal to meet basic needs. It has been argued that taxes should be subtracted from income, as this money cannot be spent to meet basic needs, and that near-money government benefits should be added—such as food stamps and housing subsidies. The omission of these items from the official definition of income has become increasingly serious in recent years because government transfers are now concentrated in benefits that are not considered part of families' gross cash income—such as housing subsidies, child care subsidies, and the EITC—rather than cash welfare assistance. The unfortunate result is that the current official poverty measure no longer accurately captures either people's perceptions of poverty or the effect of various policies on poverty.

RECOMMENDATIONS IN THE 1995 REPORT AND SUBSEQUENT RESEARCH

In response to the increasingly apparent weaknesses of the official poverty measure, the U.S. Congress appropriated funds for an independent scientific study of the official poverty measure, which led to the 1995 NRC report, *Measuring Poverty: A New Approach*. The report recommended that a new poverty threshold be calculated by determining, for a reference family of two adults and two children, a dollar amount for food, clothing, shelter, and utilities, and then increasing that dollar amount by a modest percentage to allow for other common needs (such as household supplies, personal care, and non-work-related transportation). The dollar amount would be scaled down from the median spending for those four basic items, using data gathered in the Consumer Expenditure Survey.

Rather than recommending a specific dollar figure for the total thresh-

old, the report recommended a range of possible values based on its own judgment, informed by a consideration of family budgets developed by experts, relative poverty thresholds, and “subjective” poverty thresholds. A subsequent Census Bureau report used the midpoint of the recommended range; this figure, for the four basic categories plus other needs, turned out to be roughly equal to the median actual expenditure for the four basic categories alone in 1997. The report further recommended adjustments to the reference family threshold, using an equivalence scale, to reflect the needs of different family sizes and types.² Unlike in the official U.S. poverty measure, the thresholds would be further adjusted for geographic variations in housing costs in different regions and metropolitan areas of different population sizes.

Family resources in the NRC report are defined as the value of cash income from all sources plus the value of near-money benefits that are available to buy goods and services covered by the new thresholds, minus some basic expenses. Cash income sources are the same as those in the current official Census Bureau poverty measure. The income definition also includes near-money income: food stamps, housing subsidies, school breakfast and lunch subsidies, home energy assistance, assistance received under the WIC Nutritional Supplement Program (if the data are available), the EITC, and realized capital gains (or losses). Basic expenses to be subtracted include taxes, child care, and other work-related expenses of working parents, medical out-of-pocket costs, and, if the data are available, child support payments made to another household. Taxes represent a nondiscretionary expense in that people cannot spend this money. Child care and other work-related expenses (such as commuting expenses) are also subtracted because, the panel argued, these costs are often incurred if parents are to work and earn labor market income.³

The release of the NRC report in 1995 was followed by a flurry of research activity. By 1998, an interagency technical committee was formed to guide the research agenda and provide structure for government reports using experimental poverty measures. In 1999 and 2001, the U.S. Census

²The report recommended a two-parameter scale: one parameter takes into account that children consume less than adults and the other that there are economies of scale in larger families

³Short et al. (1999) contains detail on the actual operationalization and implementation of the NRC-recommended poverty measure.

Bureau, in a coordinated effort with researchers at the Bureau of Labor Statistics, issued two reports devoted to experimental poverty measures. The Census Bureau has also released a number of alternative poverty measure estimates in materials that accompany the annual official poverty reports from 1999 to the present. Some 50 research papers on experimental poverty measures have also been written (many of these are available on a Census Bureau website)⁴ by researchers in various government agencies, including the Census Bureau, the Bureau of Labor Statistics, the Department of Health and Human Services, the Office of Management and Budget, and the Social Security Administration, to name a few, and by researchers at think tanks and various universities. This research has been enormously informative and has helped identify strengths and weaknesses in the NRC recommendations.

As noted above, Census Bureau reports have offered a large number of alternative measures of poverty, which have also changed from year to year. The second experimental poverty report (Short, 2001a), for example, presented 24 alternative poverty measures. Tables released with the subsequent 2002 annual official poverty report contained six NRC-related experimental measures that were a subset of those contained in the second experimental poverty report.

WORKSHOP GOAL

One of the central purposes of the workshop was to obtain feedback from the scientific community on which components of alternative measures are methodologically sound and which might need further refinement. In her introductory remarks, Katherine Wallman, chief statistician at the Office of Management of Budget, explicitly expressed her hope that workshop participants would (1) identify areas of agreement on technical issues and (2) specify elements of the poverty measure for which more research is necessary. Planning group member Timothy Smeeding (Syracuse University) added a third goal: (3) identification of possibilities for trimming the number of experimental measures issued in Census Bureau reports.

⁴See <http://www.census.gov/hhes/www/povmeas.html> [October 2004].

The workshop was designed to include discussion of the elements of the NRC recommendations that have received considerable attention. Sessions were devoted to the following: setting and updating a reference family poverty threshold; equivalence scales; geographic adjustments to thresholds; medical out-of-pocket expenses; work-related expenses including child care; incorporating the value of housing; and data issues and other miscellaneous topics. These elements are discussed in the following chapters. The workshop agenda and list of participants are shown in Appendixes A and B.

This report does not offer any conclusions or recommendations; it is merely a summary of the discussions that took place at the workshop. This summary is intended to reflect the variety of opinions expressed by the presenters, discussants, and participants at the workshop.

2

Setting and Updating Thresholds

The 1995 National Research Council (NRC) report offered several recommendations on how poverty thresholds for a reference family should be constructed. The report called for specifying a percentile of median annual expenditures of a family of two adults and two children on food, clothing, shelter, and utilities and applying a specific multiplier to the resulting dollar level to cover a small amount for other needs. Because an element of judgment is needed in the selection of an initial poverty threshold, the panel offered a range of values, in essence representing 78-83 percent of the median of expenditures for the basic bundle and a multiplier of 1.15–1.25.

The report also recommended that the threshold should be updated annually to reflect changes in median expenditures on the basic bundle of goods using the most recent 3 years' worth of data from the Consumer Expenditure Survey (CE), adjusted to current dollars. The advantages of this method, according to the report, are that thresholds would be updated in real terms on a regular basis from changes in spending on categories of basic goods, rather than on just price changes of all goods, as is done when using the Consumer Price Index (CPI) (for details, see Citro, 2004).

The workshop discussion on setting a revised threshold revolved around two issues: how to select a specific dollar value for the reference family threshold and the method to use for updating it over time. Setting a reference family threshold to a specific dollar amount inevitably involves making some judgments. Constance Citro (National Research Council)

noted that this is not to say that these choices are arbitrary or capricious; rather, judgment is needed, along with a thorough understanding of the issues at hand.

One question that arose was whether setting a dollar value for the reference family threshold in the new measure should, in the interest of maintaining some continuity between old and new measures, be influenced by the current official measure. A few alternatives were discussed, including using an “equal rate” method, which would set the new threshold at a level that would, by design, produce a poverty rate that equaled the official poverty rate in a particular base year (after which it would presumably diverge in one direction or another). The advantages of this method are that it would provide a more seamless change in measured poverty rates from the current official measure, and it would provide a good sense of how the composition of the poverty population differs when using the alternative measure. The main disadvantage of this method is that the threshold would in essence be an artifact and not inherently meaningful—its level would depend entirely on the official poverty rate in a given year.

An alternative method for achieving some continuity between the old and new poverty measures would be to set an “equal threshold,” for which the new reference family threshold is about the same dollar value as the official threshold. This approach could be helpful heuristically in making the transition to a revised poverty measure. Discussion of these alternatives indicated that there was little support for the “equal rate method” (setting the poverty rate of the alternative poverty measure to equal the official poverty rate in a given base year).

Many participants voiced support for the approach implemented in current Census Bureau reports on experimental poverty measures. With that approach, the dollar value of food, clothing, shelter, utilities, and a little more in the reference family threshold (for two adults and two children) does not differ very much from the reference family threshold in the current official measure; the CE-based reference family threshold was about \$1,000 higher than the official threshold in 2002. The similarity in the thresholds, though, is not by design; rather, the NRC-recommended method of pricing expenditures on the basic items in the threshold just happens to be similar to the reference family threshold in the current measure.

It was also noted, however, that the revised threshold, while similar in value, actually represents as much as a 19 percent real increase in the value of the reference family threshold in recent Census Bureau publications,

given the differences in how resources are measured (Citro, 2004: 19). That is, if alternative poverty measures were to add medical out-of-pocket and work-related expenses (including child care expenses) to the thresholds rather than subtract them from people's incomes (the latter is currently done in most of the alternative measures in published reports), then thresholds are indeed significantly higher in the new measures.

Two main options for annually updating the reference family threshold were discussed at the workshop: (1) using the CPI or (2) following the original NRC recommendations of using 3 year's worth of data on people's actual expenditures on the items contained in the threshold from the CE. The advantage of using the CPI is that it provides an easy way to update the thresholds. However, as the 1995 NRC report argued, the advantage of using the CE-based thresholds is that they rely on a "quasi-relative" updating mechanism, with the thresholds updated on the basis of changes in *real* expenditures on basic expenditure items. The NRC-recommended measure is termed "quasi-relative" because the proposed update would be based on consumption expenditures for only basic categories of goods and services, which would be expected to rise less rapidly than total expenditures or median income. Three years of CE data were recommended by the NRC so that the thresholds would not be affected as much by random annual fluctuations in the data.

In short, the 1995 NRC report held that the quasi-relative aspect of the recommended thresholds would make them less likely to become outdated over time than the CPI-based thresholds. Public opinion, for example, has indicated that the current official poverty thresholds are too low, even though they once had broad acceptance (see NRC, 1995:137-140; an updated version is in Iceland, 2003). Many workshop participants agreed with the NRC's recommended method of annually updating the thresholds—that is, to use the most recent 3 years of data on expenditures on the threshold items from the CE. They also generally voiced support for the NRC recommendation for continued research on the behavior of CE-based thresholds over time.

3

Equivalence Scales

Once a dollar figure for a reference family threshold is adopted, the next question is how to set thresholds for families of different sizes and compositions. It is widely accepted, for example, that the amount of money a four-person family requires to meet basic needs is different, and higher, than the amount needed by a single individual. An equivalence scale can be used to adjust the reference family threshold to represent equivalent amounts of money for different family types to avoid poverty.

The current poverty measure contains only an implicit equivalence scale. It does not lay out principles by which thresholds should vary across family types. Rather, Mollie Orshansky constructed the original poverty thresholds by pricing out the U.S. Department of Agriculture Economy Food Plan for different families. She developed separate food budgets for families based on the sex of the family head, family size, number of children, and, for one- and two-person units, the age of the head. For families with three or more people, these budgets were then multiplied by three to account for other basic needs. Thresholds for one- and two-person families were calculated separately based on observations of their consumption patterns that indicated smaller economies of scale (National Research Council, 1995:162-163). Thresholds were also set at a lower level for farm families than other families—a distinction that was dropped in 1981. There are currently 48 thresholds for families of different sizes and compositions in the official poverty measure.

One problem with the current implicit equivalence scale is that it takes into account only economies of scale related to food but not other items, such as shelter. It also contains a number of irregularities. For example, while economies of scale are thought to increase as families get larger, this is often not the case with the current scale, in which the addition of a fourth person adds considerably more dollars to the threshold than, say, the second person—a counterintuitive feature. Recognizing these problems, the National Research Council (NRC) report offered a set of recommendations for improving the equivalence scale.

The 1995 NRC report acknowledged that the adoption of any particular equivalence scale requires judgment. After reviewing a number of options, the report recommended a scale that took two factors into account: (1) children consume less on average than adults and (2) there are economies of scale in households so that a decreasing dollar amount should be added to the poverty threshold for each additional family member. Again, the thinking behind the latter feature is that adding a second adult to a family should raise the threshold by a higher dollar amount than, say, adding a fifth. Mathematically, the recommended scale takes the following form:

$$\text{equivalence scale} = (A + P \cdot C)^F,$$

where A equals the number of adults in a family, C equals the number of children, P is a parameter describing the proportion of the cost for an adult that a child should cost, and F is a parameter describing the extent of economies of scale. If P equals 1, for example, then children are assumed to consume the same amount as adults. If F equals 1, then no economies of scale are assumed, as each additional adult adds the same dollar amount as the previous adult. The panel recommended that P should equal 0.70 (children are assumed to consume seven-tenths of the amount consumed by an adult), and F should be set between 0.65 and 0.75. Census Bureau reports on experimental poverty measures often used the midpoint of these F values (0.70) (Short et al., 1999; Short, 2001a).

David Betson (University of Notre Dame), a member of the panel that authored the NRC report who has written extensively about equivalence scales, reiterated his views that a reasonable scale should be guided by the assumption that the marginal cost of adding an adult or child should decrease with an increase in the number of adults and that children should cost less than adults (Betson, 2004), with one exception. The exception is

based on research on the cost of children: the threshold of a single parent with a child should be roughly similar to one of a childless couple because shelter costs for a single parent with a child may exceed those of a childless couple, even if other costs (e.g., food) are lower for the former.

Thus, Betson offered an alternative “three-parameter” scale (see Betson, 1996), to be applied to the reference family threshold, consisting of food, clothing, shelter, and utilities. The scale is similar to the NRC-recommended scale, except that the third parameter provides more similarity between the expenditures of families that consist of one parent and a child and those of childless couples, and it also has larger economies of scale between single people and childless couples. Mathematically, the three-parameter scale is defined as follows:

single individual: 1.00

childless couple only: 1.41

single-parent families: $(A + \alpha + P*(C - 1))^F$

all other families: $(A + P*C)^F$,

where $\alpha = 0.8$, $P = 0.5$, and $F = 0.7$. As before, A is the number of adults in a family, and C is the number of children.

Many workshop participants voiced support for the three-parameter scale to set thresholds for different family types.¹ Timothy Smeeding (Syracuse University) noted: “It seems to me that this three-parameter scale that David [Betson] has worked on produces sensible results. . . .” The participants also voiced support for continued research on equivalence scales. Topics for future research include the effect of alternative equivalence scales on poverty rates over time, whether there are changes in economies of scale over time, the appropriateness of the parameter values adopted, and whether more factors should be taken into account in equivalence scales in the future, such as the ages of children and the value of household production by stay-at-home parents.

¹It was noted by Betson and others that if the basic bundle of goods included in the thresholds changes (such as by including medical out-of-pocket expenses), then the exact form of the equivalence scale may need to be modified.

Geographic Adjustments to Thresholds

The thresholds used in the current poverty measure do not vary by where people live. That is, there is a U.S. standard for determining whether a family is poor, regardless of whether the family lives in the North or South or in a large metropolitan area or on a farm. As described above, the official poverty thresholds initially had a farm/nonfarm distinction, where poverty thresholds were lower for people living on farms (who were assumed to grow rather than purchase some of the food they consumed), but this distinction was eliminated in 1981.

The 1995 National Research Council (NRC) report recommended that poverty thresholds should be adjusted for differences in the cost of living across areas, though it was also recognized that implementing such adjustments would be complicated by the lack of reliable data and methods for doing so. Given the dearth of knowledge, the report recommended that adjustments be limited to the housing component of the threshold, noting that this element is the item for which prices vary most across the country and for which the methods for estimating adjustments are the most advanced. The report also recommended further research on methods for improving and updating geographic adjustments.

The report presented a set of indexes to adjust poverty thresholds on the basis of six metropolitan area (or nonmetropolitan territory) population size categories and residence for nine detailed regions (or Census Bureau “divisions”). This resulted in a set of indexes for 41 geographic areas (rather than 54, as some categories had no members). The report used a

modified version of a method used by the Department of Housing and Urban Development (HUD) to create annual fair market rents (FMRs), which are used in the administration of Section 8 rental housing subsidies. Essentially, data from the 1990 census on rents for two-bedroom apartments were used to gauge differences in the cost of housing across areas (see National Research Council, 1995:194-200; Nelson, 2004).

U.S. Census Bureau reports and papers have implemented experimental poverty measures with and without geographic adjustments and have also investigated the effect of these adjustments on state-level poverty rates (Short et al., 1999; Short, 2001b). This research has shown some of the limitations of the NRC-recommended approach, in which, for example, all metropolitan areas in New England have the same index value, though housing costs in Maine are lower than those in other New England states.

The second Census Bureau report devoted to experimental poverty measures (Short, 2001a) presented geographic indexes based explicitly on the HUD FMRs. FMRs are available annually for all U.S. metropolitan areas and nonmetropolitan counties. They represent the gross rent, including utilities, at the 40th percentile (with some exceptions) of the rent distribution of standard-quality rental housing. This adjustment is applied to the housing portion of the poverty threshold. The advantage of this method over the NRC-recommended approach is it provides a finer level of geographic detail and allows for fairly simple annual updating.

Applying these geographic adjustments has a considerable effect on many state poverty rates. The poverty rates decline in low-cost areas and increase in high-cost areas (when compared with rates for which no geographic adjustments to thresholds are used). For example, the poverty rate in Alabama drops from 14.8 percent to 10.2 percent, while the poverty rate in California rises from 13.1 percent to 18.4 percent (Nelson, 2004).

The presenters at the workshop noted that the geographic adjustment method recommended in the NRC report and the refined approach implemented by the Census Bureau—both of which are based on FMR information from HUD—have several limitations. First, it would be advantageous to adjust the thresholds for regional differences in costs of other basic items rather than just housing. Second, FMR data, by design, incorporate only rental costs and not owner-occupied housing. Third, rents reflect amenities and disamenities of geographic areas. John Ruser (Bureau of Economic Analysis) raised the question of whether, for example, people who live in low-cost areas should have a lower poverty threshold (which makes them less likely to be counted as poor) if they live in an undesirable place.

A number of other technical limitations of these methods were discussed during the workshop. For example, FMRs were developed to run HUD's Section 8 certificate and voucher program and not for poverty measurement purposes. FMRs measure the gross rents of recent movers, not the entire rental stock. Rental markets can be volatile. Methods for determining FMRs sometimes vary across areas. Charles Nelson's (Census Bureau) presentation of the FMR method for making geographic adjustments listed 12 limitations of the methodology (Nelson, 2004). Discussants John Ruser and Mark Shroder (Department of Housing and Urban Development) were also highly critical of the FMR approach to adjusting poverty thresholds. They both suggested that further research on other approaches to making geographic adjustments was necessary. One possible avenue for future research mentioned involves using Consumer Price Index data to construct interarea price indexes. Such indexes do not yet exist for the entire country.

In the open discussion period, Timothy Smeeding (Syracuse University) and Rebecca Blank (University of Michigan) argued that while incorporating geographic adjustments to poverty thresholds in a poverty measure was appropriate in principle, the methods currently available to make these adjustments were simply too crude, especially in light of the fact that these adjustments have a substantial effect on state-level poverty rates—a politically sensitive issue. Others argued that the methods for geographical adjustment are sound. Many workshop participants argued that regardless of whether the methods were technically acceptable or not, it would not be worthwhile to spend significant resources improving the methods because it is very unlikely that geographical adjustments to the official measure would ever be adopted because of the political infeasibility.

Many—though not all—workshop participants indicated agreement with these views. In looking at the need for further research on improving methods for making geographic adjustments to thresholds and including more than just the variation in the housing costs in possible future adjustments, Rebecca Blank said: “At present we should set aside putting geographical price adjustments into the poverty calculation, but . . . continu[e] to improve our methodology on how to do that, including research on improving the housing price issue, which is how the geographic adjustments are largely done right now, and its interarea price distribution, as well as work on geographic variation and other prices that might add to our information about housing.”

Medical Expenses

The current official poverty measure does not directly take into account people's medical expenses. It perhaps indirectly takes them into account in that the thresholds were originally devised by multiplying food costs by three to account for other needs, which could be said to include medical costs, among other things. Even if so, this method for setting thresholds has become outdated because spending on food now comprises a smaller proportion of families' budgets, while medical expenses have increased considerably, in real dollars, over time.

The 1995 National Research Council (NRC) report noted that accounting for medical expenses in a poverty measure is a thorny and complex issue because medical care needs vary greatly across the population—more so than the needs for items such as food and housing—and it is also difficult to put a monetary value on people's medical benefits, such as Medicare and Medicaid. The report recommended an approach that separates the measurement of income poverty from a measure of medical care needs. It also proposed that out-of-pocket medical care expenses, including health insurance premiums, be subtracted from income. The reasoning was that out-of-pocket medical expenses can affect people's ability to meet basic needs, which the panel defined as food, clothing, shelter, and utilities (and a little bit more for other basic miscellaneous expenses).

Because the Current Population Survey (CPS) (the current source of official poverty statistics) does not collect information on the amount of medical expenses incurred, the NRC report recommended imputing such

expenses to families in the CPS. The technique of assigning medical out-of-pocket expenses to families in the CPS was based on a regression model designed to replicate the full distribution of actual expenses from the 1987 National Medical Expenditure Survey and then inflating the aggregated level of out-of-pocket expenses to equal benchmarks from the National Health Accounts administrative data. Characteristics used in the regression model include age of householder, medical insurance status, family size, poverty status, and race.

Current experimental poverty reports by the Census Bureau (e.g., Short, 2001a) offer several ways of accounting for medical out-of-pocket expenses: one subtracts estimates of actual medical out-of-pocket expenses from family income; another adds expected expenses to the thresholds; and a combined method does both. The experimental poverty reports also incorporated two main changes from the original report recommendations that affect all of these alternatives: (1) not to inflate medical out-of-pocket expenses to meet administrative benchmarks, as such benchmarking is not currently done with any other element in the experimental poverty measures; and (2) to use data from both the Consumer Expenditure Survey (CE) and the Medical Expenditure Panel Survey (MEPS).

The workshop discussion on medical out-of-pocket expenses centered on whether the poverty measure should include “actual” or “expected” expenditures. That is, should the measure conceptually attempt to take into account people’s actual reported medical expenses, as the 1995 NRC report recommended, or their expected out-of-pocket medical spending needs, based on their demographic and health characteristics (see Banthin, 2004, for more details).

A related question, whose answer in large part depends on the answer to the one above, is whether medical expenses should be accounted for by subtracting “actual” (or imputed) out-of-pocket costs from resources (the NRC-recommended method) or by adding expected need to the threshold, or some combination of the two methods. Another related question is whether out-of-pocket expenses should be adjusted for the underconsumption of medical care by the uninsured. In particular, uninsured people often appear to spend little on medical expenses, though some argue that this does not necessarily reflect less *need*. Adopting the view that the poverty measure should incorporate expected out-of-pocket expenses (treating medical care as a basic need) would tend to lead one to accept adjusting expenses for underconsumption by the uninsured, while those preferring to

replicate actual expenditures might (though not necessarily) favor not making such adjustment for the uninsured.

An advantage of the approach that subtracts actual medical out-of-pocket expenses from income is that it replicates the actual distribution of out-of-pocket medical spending, which varies considerably across families. The disadvantage of this method is that the model that assigns out-of-pocket expenses to families in the CPS is limited to a small set of variables. These variables explain only a relatively modest proportion of the actual variance in medical expenditures. A second disadvantage of this method, as mentioned above, is its treatment of uninsured families. Insurance status is one of the variables included in the model: it carries the assumption that the basic medical needs of the uninsured are accurately reflected by their actual expenditures even though there is evidence that uninsured families forego needed health care services because they cannot afford them (Banthin, 2004). A third disadvantage of this method is its behavior over time. If, for example, the elderly are spending increasingly more on health care than other groups and such expenses are subtracted from their income, they then will look poorer over time even as they enjoy increasing health benefits and longer lives.¹

The alternative method, including expected medical out-of-pocket expenses in the poverty thresholds, involves calculating average expenses for different family types on the basis of differences in health insurance coverage, self-reported health status, presence of elderly family members, and family size.² This approach explicitly treats medical out-of-pocket expenses as a basic need, with food, clothing, shelter, and utilities. One advantage of this method is that these expenses can be adjusted for the underconsumption of medical care by the uninsured, whose need for health care may exceed their actual spending. The thresholds can reflect the minimum resources needed by an uninsured family to buy a health insurance policy. One criticism of this method is that using expected rather than actual out-of-pocket expenses overestimates medical costs for many families (when compared to their actual expenses) and underestimates the costs for a few families (who experience high medical expenses in a particular year). This

¹These patterns of spending also affect “expected” medical out-of-pocket expense calculations, though less so (see Banthin, 2004).

²As currently implemented in Census Bureau reports, these calculations involve using data mainly from the CE, but also from the MEPS (Short, 2001a).

may indeed occur, but Richard Bavier (Office of Management and Budget) pointed out that erroneous poverty classifications resulting from this method were rather modest and the same error also applies to accounting for the cost of housing in the thresholds.

Using expected medical out-of-pocket expenses rather than actual expenses tends to produce slightly higher overall poverty rates—about 0.4 to 0.6 percentage points (Proctor and Dalaker, 2003). Elderly poverty rates are relatively lower and child poverty rates are relatively higher if expected costs are added to thresholds rather than subtracting actual costs. Jessica Banthin (Agency for Healthcare Research and Quality) asserted that this difference between the two methods increases the confidence of many researchers and policy makers in using expected costs.

A third approach to dealing with medical out-of-pocket expenses that was raised during the workshop and which has appeared in Census Bureau reports involves implementing a combination of the two methods above. First, expected medical out-of-pocket expenses are added to thresholds. Next, the difference between an estimate of actual out-of-pocket expenses and expected expenses is calculated. This net out-of-pocket amount is then subtracted from family income. This method has the advantage of replicating the distribution of actual expenses, though Gary Burtless (The Brookings Institution) argued that this is not necessarily a preferable feature, given that extreme expenses by the elderly in particular are often financed by assets or public funds rather than by income.

Many workshop participants indicated support for accounting for medical out-of-pocket expenses in a new poverty measure. While many participants expressed support for adding expected medical out-of-pocket expenses in the poverty thresholds, there was a lack of consensus on how exactly to do so. Many participants also voiced support for adjusting expected expenses for underconsumption among the uninsured, and for not having the calculation of expenses affected by extreme values sometimes observed in the data.

Rebecca Blank (University of Michigan) summarized her impression of the wide-ranging discussion: “We should account for . . . medical out-of-pocket expenses; we should do some adjustment for the uninsured; and we should top code the calculation, to get rid of those who really hit catastrophes, with the idea that that’s picked up in some other ways. . . .” However, she noted, there really was substantial disagreement about whether medical out-of-pocket expenses should go into the threshold or should be imputed into people’s income.

6

Work-Related and Child Care Expenses

The current official poverty measure does not explicitly take into account people's work-related expenses, such as child care and commuting costs. Since the thresholds were devised by multiplying the cost of a basic food plan by three to account for other expenses, it could be said, as with medical expenses, that the thresholds indirectly account for them. Nevertheless, there have been striking social changes since the early 1960s that have increased families' work-related expenses. The growth in the number of mothers in the labor force, both single and married, has spurred an increase in the demand for child care (and raised other family work-related expenses as well). Child care costs among those who incur them have also risen over time (in real dollars). The result is that the poverty thresholds have become increasingly outdated over time because they have not been adjusted to reflect increases in these basic expenses.

Recognizing this weakness of the official poverty measure, the 1995 National Research Council (NRC) report recommended that families' work-related expenses should be subtracted from their incomes in determining their poverty status. The reasoning was that the definition of family resources should consist of disposable money and near-money income, and people often incur commuting and other work-related expenses when they earn labor market income. Likewise, for many families with children, child care costs often must be paid if both parents are to work or a single parent is to work. The money for these expenses is not available for purchasing the basic goods contained in the thresholds.

The NRC report recommended the following method of accounting for work-related expenses and child care. For families in which both parents work (or the single parent works), actual child care expenses should be subtracted from income, per each week worked, not to exceed the earnings of the parent with the lower earnings or a cap that is adjusted annually for inflation.¹ In addition, for each working adult, a flat amount per week worked should be subtracted (adjusted annually for inflation and not to exceed earnings) to account for work-related transportation and other miscellaneous expenses (such as tools or work uniforms) that workers incur.

Because the Current Population Survey (CPS) (the current source of official poverty statistics) does not collect information on the amount of child care expenses actually incurred, the NRC report recommended modeling child care expenses with data on reported expenses in the Survey of Income and Program Participation (SIPP).² The report proposed subtracting a flat amount for other work-related expenses because people often make a tradeoff between housing and commuting costs, such as by choosing a more expensive home closer to work or a less expensive one farther away (see Short, 2004 for more details). Since the same expenses are assigned to all workers, they represent expected amounts rather than actual expenses incurred, though the expenses are capped to not exceed workers' earnings.

The Census Bureau reports on experimental poverty measures have implemented alternative ways of valuing child care expenses. The main difference in methods has to do with accounting for actual or expected expenses. This issue reflects the discussion of medical out-of-pocket expenses: conceptually, the central question is whether the poverty measure should take into account people's actual reported child care *expenses* or their expected work-related expense *needs*, based on their demographic characteristics and labor force participation. A disadvantage of the method of using people's actual expenses is that it overestimates nondiscretionary child care expenses for families who spend a lot on child care. If some families cannot afford to buy child care, it may also underestimate the number of

¹The caps were recommended because the report noted that some child care or work-related expenses may be discretionary.

²Work-related expenses include: annual expenses, such as union dues, licenses, permits, special tools, and uniforms; mileage expenses, based on the number of miles people usually drive to work; and other expenses, such as bus fares and parking fees.

families who are able to meet their basic child care needs, since these families show up in the data as not having spent on (and thus not having a need for) child care. The expected expense approach rests on the view that child care and other work-related expenses are to some extent a basic need for those families that have to earn labor market income.

Work-related expenses other than child care are treated with the expected expense approach in all experimental poverty measure methods. The method, as recommended by the NRC report, involves subtracting 85 percent of the median of work-related expenses reported in the SIPP from all workers for every week they worked. Total family work-related expenses are capped to not exceed the earnings of the lower-earning parent in a family. Short (2004) indicates that while 64 percent of households actually report work-related expenses, about three-quarters have expenses under the NRC-recommended method of assigning expected expenses to families. As a way of better capturing non-discretionary spending, the NRC method, however, assigns expense values that are, in aggregate, about half as much as actual reported expenses.

When accounting for child care expenses, subtracting actual expenses involves using SIPP data to estimate how much CPS families are spending on child care (since the CPS does not contain information on how much families spend). This estimate is based on the age and number of children, the marital status of the parents, and—using statistical models that improve on the ones originally used by the NRC—other characteristics of the family, such as number of hours worked, education, and region of residence. One technical problem with this general approach is that the statistical models (even the more refined ones) are only moderately successful at predicting the variation in expenses across families.

The alternative method that accounts for expected child care expenses mirrors the method used to account for other work-related expenses: a flat amount equal to 85 percent of the median cost of child care paid by families as reported in the SIPP is subtracted from all families with children under 12 years old if both parents (or the single parent) work(s). Different medians are used, depending on the number and ages of the children. As with other work-related expenses, this approach assigns child care expenses to more families than actually report incurring them, though expenses per family are in the aggregate lower with this method than when subtracting actual expenses.

The effect of these alternative methods on estimated poverty rates is small. The first Census Bureau report on experimental poverty measures

(Short et al., 1999) indicated that the overall poverty rate using the actual expense approach in 1997 was 15.4 percent, or about 0.5 percentage points lower than when using the expected expense approach (15.9 percent). As expected, the difference produced by alternative methods is larger for the poverty rates of groups who are more likely to incur such expenses. For example, among full-time working families with children, the poverty rate using the actual expense approach was about 1.2 percentage points lower than the rate subtracting expected expenses (Iceland, 2000: Detailed Table 1).

Although many workshop participants supported the idea that work-related expenses should be taken into account in a new poverty measure, Douglas Besharov (American Enterprise Institute) expressed concern about the quality of data on child care expenses in the SIPP. Because of these data quality concerns, he favored taking the simpler approach to accounting for expenses—subtracting a flat amount based on a few characteristics (or expected expenses)—rather using a measure that claims to accurately capture actual expenditures. Diana Pearce (University of Washington) and others favored the expected expense approach for conceptual reasons, viewing these expenses as a basic expenditure, or need, for working families. It appeared that many of the workshop participants supported this approach—incorporating expected work-related expenses rather than estimating actual expenses in a new poverty measure. Rebecca Blank (University of Michigan) offered her summary of the discussion: “. . . [T]here was a strong belief [that] we should indeed account for child care work expenses in assessing poverty, and the idea was rather than trying to distribute that to individuals, that we should focus on more aggregate calculations where we assign fixed amounts to specific groups.”

Housing

The workshop participants addressed two topics on housing costs and benefits in a new poverty measure: (1) whether and how differences in the amount of money owners and renters require to meet basic needs should be accounted for and (2) how to best estimate the value of housing subsidies. While the general issue of incorporating near-cash subsidies was not on the workshop agenda, given the overwhelming support for including them in a new poverty measure, part of this session was devoted to discussing housing subsidies because estimating their value can be challenging, and alternative methods for estimating them have been discussed in Census Bureau papers on experimental poverty measures (see Stern, 2004).

ACCOUNTING FOR HOME OWNERSHIP

One problem with the current official poverty measure is that thresholds do not vary by whether one rents or owns a house or apartment. If a person is an owner, there is no distinction between whether one has a mortgage or owns the property outright. The crux of the problem in having no such distinctions is that people who own a home outright or have low mortgages have more money to spend on other basic needs (such as food and clothing) than either renters or people with large mortgages.

The 1995 National Research Council (NRC) report noted that consideration of approaches that account for these ownership distinctions in-

volves complex and highly technical issues. Many of the approaches involve accounting for the flow of services that owners obtain from their homes by adding a “rental equivalence value,” or “imputed rent,” to homeowners’ incomes that would also be consistent with the value of housing represented in the thresholds. These terms refer to the estimated amount of money owners would receive if they rented their homes. The value added is net of owners’ spending on their mortgages, property taxes, and maintenance costs. The thinking is that if the rental equivalence value is not added to the homeowners’ incomes, then people who own their homes with low or no mortgages would appear to be no better off than renters or homeowners with higher costs. Taking this value into account potentially affects the elderly the most, since they are the people most likely to own their homes. Recent research suggests that the elderly poverty rate is relatively lower when owner-occupied housing is accounted for.

Given the uncertainty of data quality and the complexity of the calculations involved in estimating rental equivalence values, the 1995 NRC report did not recommend incorporating the value of housing in a new measure right away, but it urged that high priority be given to research to develop data and methods that could produce reasonable rental equivalence values.

Since the NRC report, several alternatives for accounting for the value of owner-occupied housing in a new measure have been suggested and evaluated. One approach involves estimating the rental equivalence value for homes that are owned, as mentioned above. More specifically, it first involves determining the rental value of a home. This value is used in the construction of the thresholds (the portion for which housing needs are determined). Then, in order to create a measure of families’ resources that is consistent with the value of housing represented in the thresholds, “net implicit income” is added to homeowner’s incomes. Net implicit income equals the implicit rent homeowners would receive for their homes, minus the costs to maintain them, plus price appreciation. For homeowners with no mortgages, this method can potentially add substantial amounts to their computed incomes, making them less likely to be classified as poor. Several statistical techniques can be used to determine rental equivalence, such as using rental equivalence values reported in surveys or through statistical modeling (see Garner, 2004).

A second approach for incorporating the housing value of owner-occupied housing is to determine the “user cost of capital.” When constructing thresholds, which are based on expenditure data, the user cost of

capital for renters is the rent they pay. For owners, the user cost of capital represents the rental equivalence value of the dwelling. Net implicit income is once again added to homeowners' incomes. This method is therefore conceptually similar to the rental equivalence method: the main difference is that the user cost approach is designed to figure out what homeowners would pay for the home, net of financing, taxes, maintenance, and inflation. This method is a more refined and direct approach than the rental equivalence one, with the main drawback being its complexity. It is also difficult to implement with the data currently available.

A third approach is called the out-of-pocket or payments approach. Its goal is to identify expenses associated with owning a home and accounting for them in the poverty thresholds of homeowners. Once a home is owned outright with no mortgage, out-of-pocket expenditures potentially fall. Under this method, no implicit income from owner-occupied housing is added to families' resources. This method represents a relatively simple method of accounting for the value of owning a home, though, as noted by Garner (2004), one set of criticisms is that it ignores the opportunity costs of holding equity in a home, depreciation, and the effects of inflation on the interest paid.

In the discussion, workshop participants tended to favor simpler approaches, as complex ones often end up having large margins of error due to data constraints. Two participants stated that when incorporating housing adjustments, the differences by geographic area would need to be addressed. Stephen Malpezzi (University of Wisconsin) advocated *not* adopting the more complex "user cost" method; he advocated constructing separate thresholds for owners and renters and adding net implicit rent to families' resources (which would tend to add money to those families with no mortgages).

Many workshop participants seemed to favor incorporating the value of housing to homeowners in a new poverty measure, making distinctions between the income needs of owners with mortgages, owners without mortgages, and renters. As Gary Burtless (The Brookings Institution) noted, "There is a very big difference between someone who owns a house outright, and a comfortable house, who is 80 years old, and someone who is 80 years old and has to pay rent. The fact that they have the same countable cash income does not make their situations the same, and that is very easy to explain to ordinary Americans."

Given the highly technical aspect of the alternative methods available, there was not much discussion concerning the best one.

ACCOUNTING FOR HOUSING SUBSIDIES

The main challenge in estimating housing subsidies using Current Population Survey (CPS) data—the source of official poverty statistics—is that while the survey asks respondents whether they live in public housing or pay rent at a reduced rate (such as through the Section 8 program sponsored by the Department of Housing and Urban Development), no information is collected on the subsidy value or characteristics of the housing unit in which respondents live.

However, the CPS does include an imputed estimate of the monetary value of a family's housing subsidy in its annual files, but these estimates are based on 1985 American Housing Survey (AHS) data that have been updated for inflation using the CPI. Even the AHS does not have direct information on the dollar amount of subsidies, since renters, for example, are often unaware of the amount HUD reimburses owners who rent to them through the Section 8 program. The AHS, however, does identify subsidized housing units in a more detailed fashion than the CPS, and AHS renters report the amount of rent and utilities they pay. Using information on the reported characteristics of the housing unit, one can estimate what the market value of the unit would be without the subsidy. The difference between the estimated rental value of the unit and the actual amount paid as reported in the survey equals the estimated housing subsidy the family receives. Families in the CPS are then assigned a housing subsidy value by matching family characteristics to similar families in the AHS. This match is currently based on family income, family composition, and region of residence.

The 1995 NRC report recommended that the Census Bureau conduct research on alternative ways to improve and update these housing subsidy estimates, and a few alternatives have since been implemented and evaluated. The two main alternatives include one that updates and refines the AHS-CPS match described above, and one that uses information on fair market rents (FMR) from HUD to estimate rental values and housing subsidy amounts. In the updated match method, 1999 AHS data are used (instead of 1985 data), and more household characteristics and greater geographic detail on location of residence are used in the match in order to more accurately impute housing subsidy values to CPS families.

The second approach involves using FMRs for a large number of geographic areas, which HUD calculates annually. These FMRs usually represent estimates of the 40th percentile of rent for adequate units in the rel-

evant local housing market. These rents are used to administer Section 8 Housing Assistance Payments. Using the FMR method, the dollar amount of the housing subsidy a CPS family receives can thus be calculated as equaling the difference between the fair market rent where the family resides and 30 percent of that family's total income (since families receiving the subsidy are required to spend 30 percent of their income on rent). The overall effect of alternative methods on estimated poverty rates is small—no more than 0.3 percentage points.

Ronald Sepanik (Department of Housing and Urban Development), in his commentary on these two approaches, expressed reservations about using HUD FMRs for the purpose of estimating housing subsidies. Among other technical concerns, he noted that FMRs were not consistently set at the 40th percentile of rent. Rebecca Blank (University of Michigan) expressed concerns about the quality of data used in both of the methods. Kathleen Short (Census Bureau) expressed concerns about the quality of the subsidy estimates using the FMR approach, though the CPS-AHS statistical match method was more challenging to complete in a timely manner every year. Rebecca Blank stated that her sense from the paper presentation and discussion was that the statistical match method seemed to be the technically superior method, and many participants seemed to agree with her assessment.

8

Data Issues, Other Topics, and Future Research

DATA ISSUES

Official poverty statistics, which date back to 1959, are calculated with data from the Current Population Survey (CPS), a monthly survey of about 60,000 households conducted by the U.S. Census Bureau for the Bureau of Labor Statistics. In addition to the basic monthly CPS survey, supplementary questions are asked in February through April in the Annual Social and Economic Supplement (ASEC), which serves as a source of detailed information on income and poverty used in official poverty reports.¹ The ASEC suffers from two major poverty measurement-related shortcomings: (1) it does not collect all the information needed to compute the 1995 National Research Council (NRC) report's recommended measure; and (2) income is underreported by respondents. Because of these shortcomings, the 1995 NRC report recommended that the Survey of Income and Program Participation (SIPP) should eventually be used for official poverty statistics, because it asks more detailed income-related questions and obtains income data of higher quality than the CPS.

The SIPP is a panel survey of the U.S. civilian noninstitutionalized population, begun in 1983, which contacts households every 4 months for

¹The ASEC sample is also larger than the regular monthly sample—roughly 99,000 households are interviewed in the ASEC.

about 3 years (depending on the panel). Panel sizes have varied from 14,000 to 36,700. About 31,700 households were interviewed at the start of the 2001 panel (for details, see Weinberg, 2004). The SIPP collects data on a number of items that the ASEC does not, such as child care and other work-related expenses. The panel design allows one to calculate poverty over different durations (such as a month, a year, or multiple years) and to track how families are doing over the life of a 3- or 4-year panel.

The SIPP also has shortcomings. An important one is that many people drop out of the survey over the course of the panel, which likely introduces some bias into the poverty estimates over time. Studies have shown that low-income households are more likely to drop out of the survey than others. This bias could be overcome by reintroducing “overlapping” panels (a strategy that was dropped after the 1993 panel), in which a new 3- or 4-year panel is implemented every year. This approach would produce annual poverty estimates that come from three or four panels that are simultaneously in the field.

Some of the other shortcomings in the SIPP have been addressed in recent panels. Wage and salary information tends to be underreported in the SIPP, though an improved questionnaire implemented in the 2004 panel may reduce the magnitude of this problem. Prior to 2004, the SIPP also did not have state-representative samples in all states. While the 2004 panel does have an improved design to address this issue, the small samples in a few states will produce poverty estimates that are not very reliable for those states. Reintroducing overlapping panels may help address this problem too. Finally, while the SIPP collects information on taxes, the data are of poor quality. There are efforts now under way to model what families pay in taxes (and refunds they receive from the Earned Income Tax Credit) in the SIPP; these models are somewhat similar to CPS tax models.

John Czajka (Mathematica Policy Research) said that using data from the SIPP rather than the CPS has several advantages. He cautioned, however, that the SIPP still needs to be improved in a few ways. In addition to underreporting of earnings, he mentioned that data have to be released from the Census Bureau in a more timely manner. He noted that while an overlapping panels design is important for addressing the bias arising from people dropping out of the sample, it may involve making tradeoffs if, for example, each of the panels contain smaller sample sizes (which reduce the reliability of estimates from any given panel). Overlapping panels may need to be smaller because of the expense it takes to concurrently field multiple surveys.

Several workshop participants echoed these concerns with using SIPP data, with the main issues being the timeliness of the release of data and the loss of sample over the course of the panel. Wendell Primus (Joint Economic Committee) voiced strong support for using the CPS data, noting that one advantage is the consistent CPS sample design, which provides more comparable poverty data over time than the SIPP. Rebecca Blank (University of Michigan) agreed that the CPS should continue to be used as the core data source for poverty statistics, with the hope that SIPP data might improve and might become more usable over time.

A final issue discussed in the session on data revolved around whether a new poverty measure could be implemented using American Community Survey (ACS) data. This survey, which is designed to replace the decennial census long form, could be an important source of poverty information at the state and local levels. The main problem with implementing the NRC report-recommended measure with ACS data is that the survey does not collect information on noncash benefits or health insurance status (needed to estimate medical out-of-pocket expenses). A couple of workshop participants noted that the ACS had the potential to produce valuable annual small-area poverty estimates, but only if more questions on the above items were added to the survey.

OTHER TOPICS

Workshop participants briefly discussed the following four topics: whether families' wealth should be accounted for in a poverty measure, the appropriate unit of analysis to use in a measure, whether and how to account for household production, and whether to have one alternative measure of poverty or several (as is currently done in Census Bureau reports).

Wendell Primus felt that it would be too difficult to incorporate people's wealth in a poverty measure. The quality of wealth data in household surveys is generally quite poor. Timothy Smeeding (Syracuse University) added that accounting for wealth would also necessitate including family debt in the measure. He agreed that the quality of data on these items was poor. Daniel Weinberg (Census Bureau) noted, however, that the poverty measure discussed in the workshop takes wealth into account at least to some extent by making distinctions between homeowners and renters when accounting for the value of housing. David Ribar (George Washington University) noted that it is conceptually important to take wealth into account, as wealth helps smooth people's income and expenditures.

Some participants said that research was needed on the possibility of incorporating wealth into a poverty measure, but that it should not necessarily be a top priority in the research agenda.

On the topic of unit of analysis, the issue is the most appropriate unit for which to measure poverty—the family, the household, or some other entity. While the Census Bureau definition of “families” is persons related to one another by birth, marriage, or adoption, “households” consist of all people—related or unrelated (such as housemates)—living in the same housing unit. The key question is whether people should be classified as poor on the basis of their family’s income, which is then compared with a corresponding poverty threshold based on their family’s size and composition, or whether it is more appropriate to pool incomes of all household members and use a poverty threshold based on the household’s size and composition. Rebecca Blank (University of Michigan) suggested that if better data collection efforts that clarified household relationships in complex households are a priority area for future research, the results would be helpful on this issue.

In considering how to account for household production when measuring family’s resources, Nancy Folbre (University of Massachusetts) argued that the work of parents who stay at home should be valued and challenged the idea that there were economies of scale for working mothers. For example, the additional cost of child care for a second child in a day care facility is the same as the cost of the first. She noted that spending patterns of families in which a parent stays at home also differ from those where both parents work (or a single parent works); the latter types of families, for example, spend more on food (often purchased outside the home). Family time should be viewed as a basic need, and some families are “time poor.” She noted that data collected in time diaries in some surveys now provide useful information that could help impute the value of nonmarket work. Rebecca Blank agreed that this is an important topic for future research, though knowledge of how to incorporate such information in a poverty measure is still some time away.

The final topic of discussion centered on whether Census Bureau poverty reports should contain multiple poverty measures. Several workshop participants argued that reports should highlight no more than two or three measures, and that a single new measure was preferable. Timothy Smeeding added that it would be useful for public-use datasets to have information available that would allow analysts to calculate different variations of any measure. Constance Citro (National Research Council) mentioned that it

should be made clear to the public that any poverty measure needs to be periodically evaluated, and perhaps improved, to incorporate new information or improved methods. Timothy Smeeding and Rebecca Blank also advocated continuing the current poverty measure time series to have some level of continuity in poverty statistics.

FUTURE RESEARCH

In addition to the topics for future research already mentioned, some participants indicated that further research could be helpful on some of the elements discussed above. Thus, some of the participants advocated developing improved methods for incorporating geographic adjustments to the thresholds, and others supported more research on whether equivalence scales should incorporate more than three parameters. If SIPP data rather than CPS data are to be used as the main source for poverty statistics, participants said that research is needed on the attrition problems in the SIPP. Some participants repeated their interest in future research on the use of an alternative unit of analysis other than the official family, and the feasibility and practicality of accounting for wealth and household production in a new poverty measure.

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APPENDIX

A

Workshop Agenda

Workshop on Experimental Poverty Measures
The Melrose Hotel
2430 Pennsylvania Avenue, NW
Washington, DC
June 15-16, 2004

Day 1

Tuesday, June 15, 2004

8:30 am Continental Breakfast

9:00 **Welcome and Opening Remarks**

Timothy Smeeding, Syracuse University

Katherine Wallman, Office of Management and Budget

9:10 **Session 1: Overview of What Has Happened Since the 1995 NRC Study**

Chair: *Timothy Smeeding, Syracuse University*

Nancy Gordon, U.S. Census Bureau

Katherine Wallman, Office of Management and Budget

9:30 **Session 2: Work-Related and Child Care Expenses**

The Census Bureau has explored the use of multiple methods to account for work-related and child care expenses. Is there one approach that should be carried forward? Discussion of alternatives and future research priorities may prove helpful.

Chair: *Rebecca Blank, University of Michigan*
Presenter: *Kathleen Short, U.S. Census Bureau*
Discussants: *Sandra Danziger, University of Michigan*
Douglas Besharov, American Enterprise Institute
and University of Maryland

10:30 Break

10:45 **Session 3: Incorporating Medical Out-of-Pocket Expenses (MOOP)**

Recent reports that have published experimental poverty measures, P60-219 and P60-222, have used three approaches to incorporating MOOP. The first subtracts MOOP from income, the second incorporates MOOP into the thresholds, and the third combines the first two, adjusting both income and the threshold.

Chair: *Barbara Wolfe, University of Wisconsin-Madison*
Presenter: *Jessica Banthin, Agency for Healthcare Research and Quality, DHHS*
Discussants: *Richard Bavier, Office of Management and Budget*
David Betson, Notre Dame University
Gary Burtless, The Brookings Institution

12:45 Lunch

2:00 **Session 4: Equivalence Scales**

The Census Bureau appears to have adopted a three-parameter equivalence scale to adjust thresholds for differences in family size. A quick overview of why the three-parameter scale was chosen and a discussion of related research priorities for the future may be helpful. Units of analysis for the measure will be discussed in this session, including the question of how to treat cohabitators, foster children, and roomers and boarders.

Chair: *Timothy Smeeding, Syracuse University*
Presenters: *David Betson, Notre Dame University*
Discussants: *David Johnson, Bureau of Labor Statistics*

3:00 Break

3:15 **Session 5: Geographic Adjustments**

The Census Bureau has been producing estimates that are adjusted for geographic differences based on differential housing costs and that are not adjusted for geographic differences. Is the Fair Market Rents method the most appropriate? Are there viable alternatives to Fair Market Rents as a basis for the adjustment? Are the methods used to adjust for geographic differences technically sound?

Chair: *Graham Kalton, Westat*
Presenter: *Charles Nelson, U.S. Census Bureau*
Discussants: *John Ruser, Bureau of Economic Analysis*
Mark Shroder, Department of Housing and Urban Development

4:15 **Session 6: Incorporating the Value of Housing**

- (a) Imputing Rent for Owner-Occupied Housing
- (b) Valuing Housing Subsidies

The NAS report stressed the importance of accounting for the flow of services homeowners obtain from their home in counting resources, but noted limitations in data and measurement that made this impractical for poverty measurement. What new data and methods are available to impute rent or otherwise account for home ownership?

The second experimental poverty measure report, P60-216, includes measures using two alternative approaches to valuing housing subsidies, one based on Fair Market Rents and the

other based on the 1999 American Housing Survey. What are the strengths and limitations of these approaches?

Chair: *Barbara Wolfe, University of Wisconsin-Madison*

Presenters: *Thesia Garner, Bureau of Labor Statistics*
(imputing rent)
Sharon Stern, U.S. Census Bureau
(valuing housing subsidies)

Discussants: *Stephen Malpezzi, University of Wisconsin-Madison* (on imputing rent)
Ronald Sepanik, Department of Housing and Urban Development (on valuing housing subsidies)

5:15 Open discussion

5:30 Adjourn

Day 2

Wednesday, June 16, 2004

8:30 am Continental Breakfast

9:00 **Session 7: Issues for the Poverty Thresholds**

What are the different methodological options for setting the thresholds? What are the technical implications for each option? How do alternative methods to account for other components of the poverty measure interact with these options for setting the threshold? What are the implications of these options for the different uses of poverty measures (e.g., for administrative and policy purposes or for statistical purposes)?

Given these different options, how can the thresholds be updated? Should CPI or CE or other surveys be used for updating the poverty thresholds? How often should the thresholds be updated?

- Chair:** *David Betson, University of Notre Dame*
Presenter: *Constance Citro, Committee on National Statistics, National Research Council*
Discussants: *June O'Neill, Baruch College*
Nancy Folbre, University of Massachusetts

10:15 Break

10:30 **Session 8: Data Issues**

- (a) What adjustments ought to be considered for SIPP, if we were to consider moving away from CPS as the source of official poverty statistics in the future?
- (b) What are the strengths and weaknesses of applying CE data to poverty measurement?
- (c) How often do other data sources used in alternative poverty measures (the CE and the MEPS) need to be updated?
- (d) What are the data needs for non-income surveys that also collect data relevant for poverty measurement research?
- (e) How can the American Community Survey be used to estimate poverty at the state and local levels and what are the complications involved with using the ACS?
- (f) What are the issues raised by the need for state-level estimates?
- (g) How does the problem of underreporting of income interplay with alternative methods?

- Chair:** *Graham Kalton, Westat*
Presenter: *Daniel Weinberg, U.S. Census Bureau*
Discussant: *John Czajka, Mathematica Policy Research*

11:30 **Session 9: Leftover topics**

- Chair:** *Rebecca Blank, University of Michigan*

This session will be devoted to the discussion of topics that have arisen during the workshop and that are important overall, but were not precisely relevant to the sessions in which they arose.

12:00 **Wrap-up and Discussion: Overview of the Workshop and
a Look Forward**

Rebecca Blank, University of Michigan

12:30 Adjourn

APPENDIX

B

Workshop Participants

E. R. Anderson, U.S. Department of Commerce
Bettina Aten, U.S. Bureau of Economic Analysis
Jessica Banthin, Agency for Healthcare Research and Quality, U.S.
Department of Health and Human Services
Nancy Bates, U.S. Census Bureau
Richard Bavier, U.S. Office of Management and Budget
David Beede, Economics and Statistics Administration, U.S. Department
of Commerce
Barbara R. Bergmann, American University
Douglas Besharov, American Enterprise Institute
David Betson, University of Notre Dame
Rebecca Blank, University of Michigan
Heather Boushey, Center for Economic and Policy Research
Paul Bugg, U.S. Office of Management and Budget
Gary Burtless, The Brookings Institution
Constance Citro, National Research Council
Daphne Clones, Senate Joint Economic Committee Staff
John Czajka, Mathematica Policy Research, Inc.
Thomas Corbett, University of Wisconsin-Madison
Joseph Dalaker, U.S. Census Bureau
Sandra Danzinger, University of Michigan
Martin H. David, Urban Institute
Gordon Fisher, U.S. Department of Health and Human Services

Nancy Folbre, University of Massachusetts
Thesia I. Garner, U.S. Bureau of Labor Statistics
Peter Germanis, American Enterprise Institute
Shara Godiwalla, Centers for Disease Control and Prevention
Nancy Gordon, U.S. Census Bureau
John Iceland, University of Maryland
Julie Isaacs, U.S. Department of Health and Human Services
David S. Johnson, Bureau of Labor Statistics
Kirk Johnson, The Heritage Foundation
Graham Kalton, Westat
C. Louis Kincannon, U.S. Census Bureau
Stephen Malpezzi, University of Wisconsin-Madison
David McMillen, Office of Rep. Henry Waxman
Brent R. Moulton, Bureau of Economic Analysis
Charles Nelson, U.S. Census Bureau
Donald Oellerich, Office of the Assistant Secretary for Planning and
Evaluation, U.S. Department of Health and Human Services
William O'Hare, Annie E. Casey Foundation
June O'Neill, Baruch College, The City University of New York
Diana May Pearce, University of Washington
Jerusha Peterman, Committee on National Statistics
Jessica Pond, American Enterprise Institute
Wendell Primus, Senate Joint Economic Committee Staff
Ralph Rector, The Heritage Foundation
John Ruser, Bureau of Economic Analysis
Betty Ann Saucier, U.S. Census Bureau
Susan Schechter, U.S. Office of Management and Budget
Kathleen K. Scholl, Government Accountability Office
Ronald Sepanik, U.S. Department of Housing and Urban Development
Kathleen Short, U.S. Census Bureau
Mark Shroder, U.S. Department of Housing and Urban Development
Michael Siri, National Research Council
Timothy Smeeding, Syracuse University
Ed Spar, Council of Professional Associations on Federal Statistics
Julie Squire, American Enterprise Institute
Sharon Stern, U.S. Census Bureau
Miron Straf, National Research Council
Amy Tennenbaum, University of Maryland
Michele Ver Ploeg, National Research Council

Katherine Wallman, U.S. Office of Management and Budget

Daniel Weinberg, U.S. Census Bureau

Don Winstead, Office of the Assistant Secretary for Planning and
Evaluation, U.S. Department of Health and Human Services

Barbara Wolfe, University of Wisconsin-Madison

Karen Woodrow-Layfield, University of Notre Dame

